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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS SIX THROUGH EIGHT)	Docket No. RM2014-1

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTICAL PRINCIPLES (PROPOSALS SIX THROUGH EIGHT)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider three proposals to change analytical principles relating to the Postal Service's periodic reports. The proposals, labeled Proposals Six through Eight, are discussed in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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PROPOSAL SIX

Proposed Changes in SFS Handling and Philatelic Sales Cost Estimation Models

OBJECTIVE

In order to align with the product descriptions in the Mail Classification Schedule (MCS), the proposal seeks to update the methodology for calculating the costs for Philatelic Sales and the handling costs of Stamp Fulfillment Services (SFS). The cost models were filed in USPS-FY12-28 in the FY2012 Annual Compliance Report (ACR).

BACKGROUND AND RATIONALE

USPS-FY12-28 documents the unit cost estimates for selected domestic services, including the handling costs of SFS (StFS2012.xls) and the non-postal service Philatelic Sales (StFS Philatelic2012.xls.) In the FY2012 Annual Compliance Determination (ACD), the Commission expressed concern about the calculation of attributable costs for SFS. Specifically, the calculation of SFS handling costs appears to double count employee work hours that have already been attributed to Philatelic Sales. While the Postal Service responded to Docket No. ACR2012, ChIR No. 11, Question 2 that there is no double counting, the misunderstanding could relate to a mismatch between the MCS and the way the costs and revenue are classified and calculated. For Philatelic Sales, the Postal Service estimates the "end-to-end" costs. In other words, it estimates the costs from all activities that are related to Philatelic Sales, including "handling." For SFS handling cost and revenue, the current methodology estimates **ALL** the handling costs and **ALL** the revenue of the products handled by the Stamp Fulfillment Services organization, including Philatelic Sales, Stamps, and Retail Products. The MCS, however, classifies the "Handling" for Philatelic Sales as "Philatelic Sales," and not "SFS."

In order to align with the MCS, this proposal seeks to update the cost model of handling costs of SFS (StFS2012.xls) and the way the handling revenue (the $1.25 and the $1.75 fees) is classified. In other words, the handling costs and revenue (the $1.25 and $1.75 fees) for Philatelic Sales will **NOT** be included in the SFS handling workpaper going forward. The handling costs of Philatelic Sales will be included solely in the Philatelic Sales cost estimation work paper (StFS Philatelic2012.xls). The handling costs reported in SFS for FY2012 would have decreased by approximately $400K for if the proposed methodology were in place.

In FY2012, about fifty percent (50%) of Philatelic items were sold and fulfilled by SFS. The rest of the Philatelic items were sold directly at retail locations (e.g. Post Offices). In FY2012, only the Philatelic Sales that were sold and fulfilled by SFS were included in the Philatelic Sales cost estimation work paper. This proposal also seeks to update the methodology in order to capture the window costs of Philatelic products sold in retail. Cost Studies Support data collectors observed a total of 725 retail Philatelic items sold from January through April 2013, and the average time per Philatelic item is 0.67 minute (40 seconds). With appropriate miscellaneous, waiting time, and piggyback factors, the average window cost per Philatelic item in FY 2012 is $0.93. The reported total USPS Philatelic Sales costs would have been approximately $1.2M higher if window costs for Philatelic Products had been included in the FY2012 Philatelic Products cost estimation work paper.

IMPACT

If the proposed methodology had been employed in FY12, the unit costs reported in the ACR would have been those shown below:

Services	Original	Proposed
SFS Handling Revenue	$3,298,493	$2,942,256
Philatelic Sales Revenue (SFS)	$10,647,495	$11,003,732
SFS Handling Cost	$5,566,808	$5,167,123
Philatelic Sales Costs	$6,523,854	$7,717,366

PROPOSAL SEVEN

Change in Attributable Costs for Competitive Post Office Box Service Enhancements

NOTE: A nonpublic version of this proposal, including competitive product details, is provided in USPS-RM2014-1/NP1, filed under seal.

Proposal:

This proposal updates and improves the methodology for developing attributable costs for the enhancements to the competitive Post Office Box service, as requested by the Commission in the FY 2012 Annual Compliance Determination (ACD) at pages 163 and 199. There are two elements of these costs: (1) handling of packages from third-party carriers; and (2) information technology costs. Regarding the costs for handling of third-party packages, the proposed methodology change is to use a better estimate of the number of third-party carrier packages received per Post Office Box with street addressing (or per customer). The current method of calculating the costs for handling the third-party packages is as follows:

Third-Party Package Handling Costs	=	Handling Cost per Package	X	Annual Average Number of Customers	X	Annual Average Number of Third-Party Packages Received per Customer

The current value of the last term above (Annual Average Number of Third-Party Packages Received per Customer), is as per USPS-FY2012-NP26.[1] The proposed methodology is to replace this value with a new value based on data collection from a

[1] See USPS-FY2012-NP26, Excel file "Competitive and Market Dominant P. O. Box Attributable Costs 2012.xlsx," tab 'No. of Parcels,'

sample of 200 offices during the week of June 3 -7, 2013. This data collection resulted in a much higher estimated number of packages per year per customer.[2]

The proposed methodology for information technology costs (which is a description of the calculation done for FY2012) is as follows. The methodology is to consult with Engineering to determine (1) the estimated proportion of time spent by contractor engineers on maintaining the Competitive PO Box service website and software, (2) any server costs , and (3) any other contractor costs related to website and software development . The estimated time proportions are applied to the hourly rates of the contractor engineers involved to determine a labor cost, which is added to the server and additional contractor costs.

Rationale:

With respect to the handling costs, the current estimate of the number of third-party carrier packages received per customer (or per Post Office Box with street addressing) was obtained in an October 2011 operational study of 49 service locations (all of the offices with competitive Post Office Box service at the time) to estimate the number of packages handled. This service was fairly new at the time of this survey. Now that this service is more established, an estimate of the number of packages can

[2] In April, 2013 a sample of 200 post offices was selected (from the 4,968 offices that had at least one Post Office Box street addressing customer) in order to estimate the number of third-party carrier packages per customer. The offices were selected randomly with the probability of selection in proportion to their number of Post Office Boxes with street addressing – in other words, Probability Proportional to Size (PPS) sampling. As a result, the 200 selected offices had nearly 11 percent of the total Post Office Boxes with street addressing. Data on the number of third-party carrier packages received was collected during the week of June 3 to June 7. The weighted average estimate of the number of packages per customer per year was obtained with a CV of 10 percent.

be more accurately determined by counting packages during a representative period at a sample of Post Offices that offer this enhancement. See the Postal Service's Response to CHIR No. 8, question 7 of Docket No. ACR2012.

With respect to the information technology costs, the proposed methodology is a detailed description or explanation of the proposed calculations as requested by the Commission.

Impact:

The impact of the improved estimate of the number of third-party carrier packages received per customer (or per Post Office Box with street addressing) is shown in the non-public version of this response. It is calculated by comparing the calculation of the FY2012 the cost of handling third-party packages (as per the above formula) from USPS-FY2012-NP26[3] with the use of the same formula using the newly obtained estimate of the number of third-party carrier packages received per customer (or per Post Office Box with street addressing). Use of the newly obtained estimate in calculating the FY2012 handing costs for third-party packages leads to a cost increase commensurate with the increase in estimated number packages from third-party carriers received per customer. (FY 2013 handling costs will also be significantly higher than the FY 2012 handling costs because there are many more customers in FY 2013.)

[3] See USPS-FY2012-NP26, Excel file "Competitive and Market Dominant P. O. Box Attributable Costs 2012.xlsx," tab 'No. of Parcels,' and tab 'Private Carrier Parcel Costs.'

While there is no impact of the provision of the more detailed methodology of calculation of information technology costs, the non-public version contains a documentation of the calculation of the information technology cost for FY2012.[4] The technology to enable customers to receive Real Mail Notification (RMN) and Street Addressing are integrated, so the information technology costs provided cover both. The labor costs for the contract engineers are based on estimating the proportion of the annual work hours of contract engineers spent on maintaining the Competitive PO Box service website and software. The server cost was the cost to purchase the necessary servers. Website and software development costs are the payment to a contractor for these services.

[4] USPS-FY2012-NP26, Excel file "Competitive and Market Dominant P. O. Box Attributable Costs 2012.xlsx," tab 'Comp. & MD PO Box Costs.'

PROPOSAL EIGHT
CHANGES TO MODS OPERATION GROUPS FOR PRODUCTIVITY CALCULATIONS

Objective:

This request would modify the MODS operation groups reported in Docket No. ACR2013 folder USPS-FY13-23 to reflect operational changes and other cost modeling requirements.

Background:

In Docket No. ACR2012, folder USPS-FY12-23 provided MODS productivity data (TPF or TPH per workhour) for a variety of operation groups related to letter, flat, parcel, and bundle sorting. The MODS productivity data are used to parameterize a number of cost models presented in the ACR, which are used to compute disaggregated product costs for purposes including measurement of worksharing cost avoidances.

Operational changes such as introduction and retirement of mail processing equipment periodically require conforming changes to MODS data reporting, as cost model structures are modified to reflect currently active operations. When equipment and associated operations are withdrawn from service, there may be no data, or insufficient data, for reliable productivity reporting. Less frequently, changes to MODS methodology may affect the validity of MODS data.

Proposal:

The proposed productivity changes are as follows.

USPS-FY12-23 Group(s)	Proposed Group for USPS-FY13-23
UFSM 1000 HSF Out Primary, HSF Out Secondary, Key Out Primary, Key Out Secondary	UFSM 1000 Outgoing (consolidated group)
UFSM 1000 HSF In MMP, HSF In SCF, HSF In Primary, HSF In Secondary, Key In MMP, Key In SCF, Key In Primary, Key In Secondary	UFSM 1000 Incoming (consolidated group)
LIPS Outgoing	Discontinue
ISS – Return to Sender	Discontinue
OSS – Return to Sender	Discontinue
Manual Letters, Out Primary, Out Secondary	Manual Letters Outgoing (consolidated group)
Manual Letters, In MMP, In SCF/Primary	Manual Letters Incoming (consolidated group)
Manual Letters, In Secondary	Discontinue
Manual Flats, Out Primary, Out Secondary	Manual Flats Outgoing (consolidated group)

Manual Flats, In MMP, In SCF, In Primary, In Secondary	Manual Flats Incoming (consolidated group)
Tray Sorter Outgoing	Add new group (MODS operations 198, 618, 628)
Tray Sorter Incoming	Add new group (MODS operations 199, 619, 629)

The productivity calculations for the new groups would continue to use the methods from USPS-FY12-23. As applicable, the mailflow models would employ productivities from the consolidated operation groups in place of the previous disaggregated groups.

Rationale

Consolidate UFSM 1000 Groups. UFSM 1000 workhours and workloads have declined sharply due to retirement of UFSM 1000 equipment—total costs for the FSM/1000 cost pool were $14.3 million in FY2012; annual costs exceeded $200 million at the operation's peak. Several of the detailed UFSM 1000 groups reported in USPS-FY12-23 had little or no data in FY2012, leading to instability of certain productivities. Most, though not all, remaining workhours and workload are in UFSM 1000 HSF operations. The Postal Service believes that the consolidated productivities will make the best use of the remaining data.

Discontinue LIPS Outgoing Group. The underlying three-digit MODS operations comprising the group—254 (LIPS-Outgoing Pref) and 255 (LIPS-Outgoing Standard) were discontinued in FY2012, so there will be no data for the group in FY2013.

Discontinue ISS and OSS Return to Sender Groups. These groups are no longer used in the letter mailflow models. The models reflect PARS operations and employ productivities for PARS operation groups. Additionally, workhours and workloads in these groups have been *de minimis*, and the reported productivities have been erratic.

Consolidate Incoming and Outgoing Operation Groups Within Manual Letters and Manual Flats. During FY 2008, the Postal Service ceased weighing letter- and flat-shape mail for MODS FHP (first-handling piece) measurement. Under this system, automation workloads are based on machine counts in the WebEOR system.[1] In the absence of a direct source of piece counts for manual letter and flat distribution workloads, the new system has imputed manual workloads from automation workloads.

Measured manual letter and flat productivities generally increased from FY2008-FY2011 and since have been relatively stable for larger manual

[1] For mechanized and automated operations, FHP previously was determined by weighing, but TPH and TPF were derived from machine counts of pieces or other articles processed on the equipment.

operation groups. However, the Postal Service has observed that productivities for relatively small manual operation groups, such as secondary distribution operations, have been less stable. These may be more sensitive to small errors in the factors used to impute manual workloads. Changes to mailflows due to facility consolidations may contribute to instability of the manual productivities. The Postal Service believes that consolidating operation groups within manual letters and manual flats will lower the risk of future productivity shocks to cost estimates.

Discontinue Manual Letters, Incoming Secondary Group. The MODS-based productivity for manual incoming secondary letters is not used in the USPS-FY12-10 (Docket No. ACR2012) letter mailflow models.

Add Tray Sorting Groups. Automated tray sorting operations comprise a substantial portion of LDC 13 costs at MODS plants—the 1TRAYSRT cost pool encompasses 6.374 million workhours costing $273.3 million in FY2012 (see Docket No. ACR2012, USPS-FY12-7, Tables I-2 and I-2A). Thus, the productivities will allow a sizeable cost pool to be explicitly modeled. The cost pool includes Low-Cost Tray Sorter, High-Speed Tray Sorter, and Robotics operations.

Workloads for these operations, Non Add TPH and TPF, are based on machine counts of trays processed. Errors in productivities (at the site-month level) appear to be relatively symmetric, and the Postal Service believes the relatively large numbers of observations should be sufficient to provide reliable productivities with light screening (excluding 1% tails of the monthly observations).

Impact

The following table shows the current and proposed productivities based on the FY2012 MODS data used in USPS-FY12-23.

Old Operation Group	USPS-FY12-23 Productivity	Proposed Operation Group	Productivity for Proposed Group (FY2012 Data)
UFSM1000 HSF Out Primary	1147	UFSM 1000 Outgoing	1130
UFSM1000 HSF Out Secondary	787		
UFSM1000 Key Out Primary	494		
UFSM1000 Key Out Secondary	1060		
UFSM1000 HSF In MMP	1795	UFSM 1000 Incoming	1518
UFSM1000 HSF In SCF	1392		

UFSM1000 HSF In Primary	n/a (no data)		
UFSM1000 HSF In Secondary	1857		
UFSM1000 Key In MMP	19		
UFSM1000 Key In SCF	860		
UFSM1000 Key In Primary	326		
UFSM1000 Key In Secondary	926		
Manual Ltr Out Primary	663	Manual Ltr Outgoing	704
Manual Ltr Out Secondary	1009		
Manual Ltr In MMP	1060	Manual Ltr Incoming	1016
Manual Ltr In SCF/Primary	1005		
Manual Flat Out Primary	554	Manual Flt Outgoing	559
Manual Flat Out Secondary	530		
Manual Flat In MMP	662	Manual Flt Incoming	527
Manual Flat In SCF	507		
Manual Flat In Primary	517		
Manual Flat In Secondary	365		
Tray Sortation Outgoing	n/a (new group)	Tray Sortation Outgoing	117
Tray Sortation Incoming	n/a (new group)	Tray Sortation Incoming	91

Modified versions of the USPS-FY12-10 and USPS-FY12-11 models are filed with proposed changes highlighted in the models. The productivity changes affect the non-machinable categories of mail as the manual letter productivities affect those categories the most. Changes to machinable/automation rate categories are because of the change in the CRA adjustment factor.